

REPORT ON EXAMINATION
of the
PLATEAU CASUALTY INSURANCE COMPANY

2701 North Main Street
Crossville, Tennessee 38555

as of
December 31, 2004

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Dept. Of Commerce & Insurance
Company Examinations

DEPARTMENT OF COMMERCE AND INSURANCE
STATE OF TENNESSEE
NASHVILLE, TENNESSEE

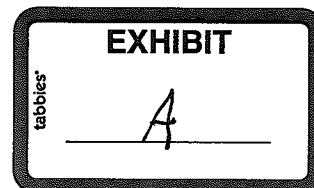


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STATE OF TENNESSEE
DEPARTMENT OF COMMERCE AND INSURANCE
INSURANCE DIVISION
500 JAMES ROBERTSON PARKWAY - 4TH FLOOR
NASHVILLE, TENNESSEE 37243-1135

Crossville, Tennessee
July 26, 2005

Honorable Alfred W. Gross Chairman, NAIC Financial Condition (E) Committee Virginia Bureau of Insurance P. O. Box 1157 Richmond, Virginia 23218-1157	Honorable Walter A. Bell Secretary, Southeastern Zone, NAIC Commissioner of Insurance Alabama Department of Insurance 201 Monroe Street, Suite 1700 Montgomery, Alabama 36104
Honorable Paula A. Flowers Commissioner of Commerce & Insurance State of Tennessee 500 James Robertson Parkway Nashville, Tennessee 37219	

Commissioners:

Pursuant to your instructions and in accordance with the Tennessee Insurance Laws, regulations, and resolutions adopted by the National Association of Insurance Commissioners (NAIC), a financial examination and a market conduct review was made of the conditions and affairs of the

PLATEAU CASUALTY INSURANCE COMPANY
CROSSVILLE, TENNESSEE

hereinafter and generally referred to as the "Company."

INTRODUCTION

This examination was arranged by the Department of Commerce and Insurance of the State of Tennessee (TDCI) under rules promulgated by the NAIC. It was commenced on May 16, 2005, and was conducted by duly authorized representatives of the TDCI. Due to the Company being licensed in several states, this examination is classified as an Association examination and therefore was called through the NAIC's Examination Tracking System. However, notice of intent to participate was not received from any other state. This examination was made simultaneously with the Company's parent, Plateau Insurance Company.

The previous examination was made as of December 31, 1999, by examiners of the State of Tennessee. Their report on examination contained one comment that required corrective action by the TDCI. The Company corrected the problem mentioned in the last report. See Comments - Previous Examination section included under Scope of Examination on page 3.

Location of Books and Records:

All of the Company's original books and records are located at their home office in Crossville, Tennessee.

SCOPE OF EXAMINATION

This examination covers the period, January 1, 2000, through December 31, 2004, and includes any material transactions and/or events occurring subsequent to the examination date which were noted during the course of examination.

During the course of examination, assets were verified and valued, and liabilities were determined or estimated as of December 31, 2004, in accordance with rules and procedures as prescribed by the statutes of Tennessee, the Company's state of domicile. The examination of the financial condition of the Company was conducted in accordance with guidelines and procedures contained in the *NAIC Financial Condition Examiners Handbook*.

An examination of all assets and liabilities contained in the financial statement of this report was made and individual items were verified with a degree of emphasis determined by the examiner-in-charge during the planning stage of the examination. Independent actuaries were utilized in the review of the Company's loss reserves and loss adjustment expense reserves. In addition, independent reinsurance specialists were utilized in the review of the Company's reinsurance agreements and overall reinsurance program.

A letter of representation, dated as of the date of this report and certifying that management has disclosed all significant matters and records, was obtained from management and has been included in the work papers of this examination.

Comments - Previous Examination

The previous examination report as of December 31, 1999, only made one (1) comment, which the Company corrected while the previous examination was still on-going. The following is the comment that was listed in the previous examination report:

- The Company's custodian agreement did not contain all of the necessary safeguards and controls prescribed by the *NAIC Financial Condition Examiners Handbook* and Tenn. Comp R. & Regs. 0780-1-46-.04. The custodian agreement was replaced during the course of the examination with a new agreement which did contain all of the necessary safeguards and controls.

The Company is audited annually as part of the audit conducted for the holding company system, of which it is a member, by an independent accounting firm. The auditors' workpapers for the year ended 2004 were made available to the examiners during the planning phase of this examination. Workpapers of the auditors' substantive testing and their documentation of the Company's procedures and verification of internal controls were relied upon where sufficient for the purposes of this examination. Copies of these workpapers are included in the examination files where appropriate.

An examination was also made into the following matters:

- Company History
- Growth of Company
- Charter and Bylaws
- Management and Control
- Holding Company System
- Pecuniary Interest of Officers and Directors
- Corporate Records
- Fidelity Bond and Other Insurance
- Employee Benefits and Pension Plans
- Territory and Plan of Operation
- Market Conduct Activities
- Exhibit of Premiums Written – Schedule T
- Loss Experience
- Reinsurance
- Unearned Ceding Commission
- Agreements with Parent, Subsidiaries and Affiliates
- Litigation and Contingent Liabilities

- Statutory Deposit
- Accounts and Records
- Subsequent Events
- Financial Statements

These will be discussed as follows:

COMPANY HISTORY

The Company was organized under the laws of the State of Tennessee on December 28, 1995. Effective May 29, 1997, the Company was issued a Certificate of Authority by the TDCI to transact the business of property and casualty insurance.

Provision was made in the original charter for authorized capital of one million two hundred and fifty thousand dollars (\$1,250,000) consisting of one thousand two hundred and fifty (1,250) shares of common stock with a par value of one thousand dollars (\$1,000) per share. On May 1, 1997, the Company issued one thousand (1,000) shares of its common stock to Plateau Group, Inc. (Plateau Group), in consideration of the payment by Plateau Group of three thousand dollars (\$3,000) per share in securities. Thus, as of the same date, leaving the Company with one million dollars (\$1,000,000) in common capital stock and two million dollars (\$2,000,000) in gross paid in and contributed surplus.

On March 1, 2001, the Plateau Group contributed the common voting stock of the Company to Plateau Insurance Company. The stock, one thousand (1,000) shares of one thousand dollars (\$1,000) par value per share, was contributed at its statutory value at that time of three million six hundred seventy one thousand five hundred and ninety three dollars (\$3,671,593). Control of the Company did not change as a result of this transaction since the ultimate controlling party for both companies remained Plateau Group. The accounting recognition of the transaction was made in accordance with *NAIC Accounting Practices and Procedures Manual*, Statements of Statutory Accounting Principals ("SSAP") No. 46, paragraph 10. In addition, no TDCI approval was needed since a life company can start or purchase a subsidiary without approval and Tenn. Code Ann. § 56-11-206 does not apply since no sale took place and no payment was made.

At December 31, 2004, the Company had authorized capital stock of one thousand two hundred and fifty (1,250) shares of common stock with a par value of one thousand dollars (\$1,000.00) per share, of which one thousand (1,000) shares were issued and outstanding for a capital paid up of one million dollars (\$1,000,000). All of the outstanding shares were owned by Plateau Insurance Company at the examination date.

The Company's capital structure appears in the 2004 Annual Statement as follows:

Common capital stock	\$1,000,000
Gross paid in and contributed surplus	2,000,000
Unassigned funds (surplus)	<u>1,991,269</u>
Total capital and surplus	<u>\$4,991,269</u>

All outstanding shares of the Company are owned by its parent, Plateau Insurance Company. Plateau Insurance Company is one hundred percent (100%) owned by the Plateau Group, the ultimate controlling party. The Plateau Group is owned by a number of entities none of which owns more than ten percent (10%) of the ultimate parent.

GROWTH OF COMPANY

The following exhibit depicts certain aspects of the growth and financial history of the Company for the period subject to this examination according to its annual statements as filed with the TDCI:

<u>Year</u>	<u>Premiums Earned</u>	<u>Losses Incurred</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Capital & Surplus</u>
2000	\$1,777,399	\$632,808	\$6,403,331	\$2,918,617	\$3,484,714
2001	1,644,338	352,421	6,717,788	3,046,195	3,671,593
2002	2,288,432	691,325	8,614,211	4,945,155	3,669,056
2003	2,783,267	1,075,279	8,690,677	3,416,646	5,274,031
2004	3,470,378	1,215,785	9,559,377	4,568,108	4,991,269

CHARTER AND BYLAWS

The original Charter of the Company was filed with the Tennessee Secretary of State on December 28, 1995. The original charter stated the Company's name, address, registered agent, incorporator, shares of stock and that the corporation is for profit among other general details. They are usual in nature and consistent with statute.

During the period of examination, the Company's Charter was not amended. Prior to the period of examination, the Charter's only amendment occurred on May 1, 1997. The amendment changed the Company's name to Plateau Casualty Insurance Company and added the Company's stated purpose. The stated purpose reads as follows:

In addition to the powers set out in Tennessee Code Annotated Section § 48-13-102, the Company shall have the power to engage in the business of insurance as a principal, including without limitation the property and casualty insurance business.

The Bylaws of the Company in effect at December 31, 2004, are the Company's original Bylaws. The Bylaws provide for an annual shareholders meeting at which a Board of Directors is elected. Officers are elected by the Board of Directors annually at the first board meeting after the annual shareholders meeting.

The Bylaws are such as generally found in corporations of this type and contain no unusual provisions. They provide for the regulation of the business and for the conduct of the affairs of the Company, the Board of Directors and its shareholders.

Dividends to Stockholders

The Company did not pay any shareholder dividends during the period of examination.

MANAGEMENT AND CONTROL

The Company's Bylaws state that the business and affairs of the corporation shall be managed by a Board of Directors who shall be elected at the annual meeting of the shareholders. The Company's Bylaws state that the number of directors shall consist of no fewer than three (3) or more than ten (10) members as set forth from time to time by resolution of the Board of Directors. Directors serve until the next annual meeting of the shareholders and thereafter, until a successor has been elected.

The following persons were duly elected by the sole shareholder on May 24, 2004, and were serving as members of the Board of Directors at December 31, 2004:

Name

William Dickson Williams

William Michael Ramsey

Euretha Jean Roberts

Thomas Lee Williams

David Michael Graham

The Bylaws provide that the officers of the corporation shall be a President, a Secretary and such other officers as may be from time to time appointed by the Board of Directors. One person may simultaneously hold more than one office except the President may not simultaneously hold the office of Secretary.

The following persons were duly elected by the sole shareholder on May 24, 2004, and were serving as officers of the Company at December 31, 2004:

<u>Name</u>	<u>Title</u>
William Dickson Williams	President
William Michael Ramsey	Treasurer
Euretha Jean Roberts	Secretary
Thomas Lee Williams	Executive Vice President
David Michael Graham	Senior Vice President

The Board of Directors may create one (1) or more committees, each consisting of one (1) or more members. All members of committees of the Board of Directors which exercise powers of the Board of Directors must be members of the Board of Directors and serve at the pleasure of the Board of Directors. At this date, the Company's Board of Directors has never created any committees.

HOLDING COMPANY SYSTEM

The Company is a member of an insurance holding company system as defined by Tenn. Code Ann. § 56-11-201. All outstanding shares of the Company are owned by its parent, Plateau Insurance Company. The examination of Plateau Insurance Company is occurring simultaneously with the examination of this Company. Plateau Insurance Company is one hundred percent (100%) owned by the Plateau Group, the ultimate controlling party. A Tennessee Corporation, the Plateau Group was incorporated on July 29, 1980, as an insurance holding company in the business of credit life insurance and credit accident and health. Plateau Group is a conglomerate that has both insurance and non-insurance holdings. The Plateau Group also owns four reinsurance companies, three (3) of which are domiciled in the Turks and Caicos and the other in the state of Nevada. An organizational chart is included at the end of this report.

As of December 31, 2004, the capital stock of the Plateau Group was owned by sixty-three (63) stockholders. The stockholders included certain individuals, banks or bank holding companies, finance companies, insurance agencies, insurance companies, an investment corporation wholly owned by the President of the Plateau Group and the Plateau Capital Accumulation Plan, an employee benefit plan with self directed investments. The primary function of the Plateau Group is to act as marketing agent for the Company pursuant to the terms and provisions of a Management Service Agreement (refer to Agreements with Parent, Subsidiaries and Affiliates).

Downstream members of the Plateau Group holding company system as reported in Schedule Y of the Company's 2004 Annual Statement included the following:

Plateau Group, Inc. (Holding Company – Tennessee)	Percent %
Insurers and their Subsidiaries	
Plateau Insurance Company - Tennessee	100%
Plateau Casualty Insurance Company - Tennessee	100%
Tennessee Life Insurance Company – Arizona	100%
Reinsurance Companies	
Plateau Reinsurance, LTD – Turks & Caicos	100%
Preferred Reinsurance, LTD – Turks & Caicos	100%
Tennessee Dealers Reinsurance Company, LTD – Turks & Caicos	100%
Plateau Reinsurance Company - Nevada	100%
Non-Insurers	
Plateau Service Company – Tennessee	100%
Athens Insurance Agency – Tennessee	100%

PECUNIARY INTEREST OF OFFICERS AND DIRECTORS

This Company does not have any employees. All services and employees are provided to it from the Plateau Group as part of a Management Service Agreement (refer to Agreements with Parent, Subsidiaries and Affiliates). However, the Plateau Group has established a conflict of interest policy for its employees and the officers and directors of its respective subsidiaries. The policy does not list all specific actions that would be considered conflicts of interest, but states if there is even a hint of conflict then it should be disclosed to management or to a supervisor and an opinion should be requested immediately.

Service as a director or officer of another organization requires the approval of the President of the Plateau Group. If such organization does business with any Plateau Company it is a conflict of interest for any employee to serve as an officer or director of that organization without the express permission of the President and the Executive Committee of the Plateau Group. Several of the officers of the Company serve as officers and some cases directors of reinsurance companies that do business with the Company. The officers receive no monetary benefit from any of the reinsurance companies and their service is rendered only in such a way as to enhance the overall service provided to these companies by the Plateau companies. Both the President and Executive Committee of the Plateau Group are aware of this service.

The policy states an employee may be asked to complete a questionnaire dealing with conflict of interest once each year. The Plateau Group has never required any of its employees or officers and directors of its respective subsidiary companies to perform any conflict of interest disclosure statements. However, subsequent to the examination as of date, in June 2005, the officers and directors of the Company did complete a conflict of interest disclosure statement. The examiner reviewed the questionnaires completed by the Company's directors and major officers with no exceptions.

CORPORATE RECORDS

The minutes of meetings of the Company's Shareholders and Board of Directors were reviewed for the period under examination. They were found to be well written and appear to properly reflect the acts of these respective bodies. All Board of Director meetings during the examination period were by written consent.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured under certain insurance coverages being carried by its ultimate parent, the Plateau Group. The following is a summary of the various bonds and insurance policies that provided the enumerated coverages to the Company at December 31, 2004:

Type of Coverage	Limits of Liability
1. Fiduciary liability	\$ 1,000,000 aggregate \$ 15,000 single loss deductible
2. Commercial property (1) 2701 North Main St. Crossville, TN 38555 (2) #4 Kingsboro Dr. Fairfield Glade, TN 38558	\$ 2,718,000 building and contents \$ 100,000 business income and extra expense \$ 150,000 accounts receivable \$ 135,000 valuable papers \$ 380,000 EDP equipment and software \$ 60,000 EDP extra expense
3. Commercial general liability	\$ 1,000,000 general aggregate \$ 1,000,000 products/completed operations \$ 500,000 personal & advertising injury \$ 10,000 medical expense
4. Employee benefits liability	\$ 1,000,000 each occurrence \$ 3,000,000 aggregate
5. Commercial umbrella liability policy	\$ 5,000,000 each occurrence and aggregate
6. Business automobile Uninsured motorists	\$ 1,000,000 each accident \$ 1,000,000 each accident \$ 5,000 medical payments
7. Errors and emissions liability	\$ 1,000,000 each occurrence and aggregate \$ 10,000 single loss deductible
8. Workers compensation liability A. Workers compensation B. Employers liability a. Bodily injury by accident b. Bodily injury by disease c. Bodily injury by disease	Statutory limit \$ 100,000 each accident \$ 500,000 policy limit \$ 100,000 each employee

Minimum fidelity coverage suggested in the *NAIC Financial Condition Examiners Handbook* for a company of the Company's size and premium volume is not less than one hundred and fifty thousand dollars (\$150,000), which the Company is well over. The bonds and policies affording the aforementioned coverages were inspected and appear to be in-force as of the date of this examination. All of the above policies were issued by companies licensed to transact business in the State of Tennessee or by authorized surplus lines insurers. Similar coverages were in effect as of the date of this examination report.

EMPLOYEE BENEFITS AND PENSION PLANS

The Company receives all management, administrative and general services from the Plateau Group in accordance with the Management Service Agreement that is described later in the report under the heading Agreements with Parent, Subsidiaries and Affiliates. As of December 31, 2004, the Company had no employees, therefore no employee benefit plans. However, the Plateau Group provides its employees with term life insurance, medical insurance, disability insurance and a 401(k) retirement plan.

TERRITORY AND PLAN OF OPERATION

Territory

As of December 31, 2004, and as of the date of this examination report, the Company is a stock for profit property and casualty insurance company licensed to transact business in the States of Tennessee, Alabama, Georgia, Louisiana and Mississippi. Certificates of Authority granted by the licensed states were reviewed and found to be in force at year-end 2004.

The Company plans to apply for admission to be licensed in the states of North Carolina and South Carolina as soon as this examination is complete and the report is available. Premium tax records were reviewed for all states in which the Company writes business and no exceptions were noted.

Plan of Operation

The Company is a stock for profit property and casualty insurance company. The Company insures vehicle service contracts sold through automobile dealerships and credit property risks produced by financial institutions and auto dealers.

The Company's products include credit property, vehicle single interest, non-filing, vehicle physical damage, vehicle service contracts, GAP insurance, involuntary unemployment insurance and contractual liability coverage. All of these products are marketed to financial institutions, automobile dealers and retail creditors by either Company employed marketing representatives or

independent general agents. Generally, the dealers or financial institutions then offer optional coverage to their borrowers for new loans made via insurance certificates under the group policy. The majority of the Company's business is conducted in Tennessee and to a lesser extent in the surrounding states.

The Company's projected marketing plan for 2005 is three (3) tiered. Tier one (1) is to increase business from three (3) new sources: Georgia banks, Georgia finance companies, and retail lenders in states where they are authorized. Tier two (2) is to increase business from existing marketing territories through incremental new account growth and by hiring one of their competitor's marketing representatives (which they did in March 2005). Tier three (3) is to increase business from existing accounts through better loan officer training and product presentation and disclosure tools.

MARKET CONDUCT ACTIVITIES

In accordance with the policy of the TDCI a market conduct review was made of the Company as of December 31, 2004, in conjunction with this examination. The following items were addressed:

Underwriting and Rating:

All underwriting is performed at the Company's home office. Underwriting guidelines and rates are established within the framework of statutory compliance and sound business practices. Coverage is issued through group policies issued to creditors who are also agents of the Company.

Policy Forms and Filings:

The Company's rates and policy forms were reviewed for compliance with state statutes and regulations concerning approval by their respective state insurance departments. As discussed under "Territory and Plan of Operation", the Company writes business in five (5) states.

A review was also made of the Company's procedures for documenting approval of rates and forms. Approved policies for all states are filed by plan and files reviewed appear to be complete.

Advertising:

The Company maintains advertising and sales material files in their compliance department. The Company's sales materials are very limited. The Company generally prepares a sales brochure to be used by both an agent and potential applicant which explains the benefits, provisions and limitations of the policy.

Policyholder Complaints:

The Company's complaint handling practices were reviewed during the examination. The examiner was provided a list of complaints from the Company's complaint register. The Company recorded only two (2) complaints during the period of examination. The complaint files from these two (2) complaints were reviewed and it was found that the Company keeps good records of each complaint received and responds to the respective state insurance department in a timely fashion.

Claims Review:

The examination included a review of the Company's claims handling to determine compliance with Tenn. Code Ann. § 56-8-101 et seq. The Company's claims handling practices were reviewed for timeliness, adherence to proper procedure and fair and consistent treatment of policyholders.

Sixty (60) policy and claim files were reviewed for proper documentation of policy and claims data and consistency with computerized policy data. This review disclosed that the Company maintains accurate policy and claim file records that correspond correctly to their computer data. Another eighty (80) policy and claim files were reviewed for accuracy and completeness. This review confirmed the prior review concerning the accuracy of the Company's computerized policy and claim data, however it also tested and confirmed the completeness of those records.

In addition to testing the accuracy and completeness of the Company's data, a review was made of the Company's practices pertaining to the handling of claim settlements by sampling both open and closed claim files. A review of open claims at December 31, 2004, revealed that the Company appears to be setting reserves on a consistent basis. Closed claims during the period of examination were reviewed and indicated that claims were being paid in accordance with policy provisions and settlements were made promptly upon receipt of proper evidence of the Company's liability.

The Company does maintain an updated set of written claim procedures, claim training manual, and anti-fraud procedures.

SCHEDULE T – EXHIBIT OF PREMIUMS WRITTEN

<u>State</u>	<u>Licensed? (Yes or No)</u>	<u>Direct Premiums Written</u>	<u>Direct Premiums Earned</u>	<u>Direct Losses Paid</u>	<u>Direct Losses Incurred</u>	<u>Direct Losses Unpaid</u>
Alabama	YES	\$1,003,328	\$976,865	\$252,666	\$277,813	\$110,983
Georgia	YES	0	0	0	0	0
Louisiana	YES	398,498	154,510	14,537	42,968	28,431
Mississippi	YES	2,313,912	1,100,321	156,851	312,671	166,233
Tennessee	YES	7,245,651	6,108,979	2,838,235	2,900,059	707,712
Totals		<u>\$10,961,389</u>	<u>\$8,340,675</u>	<u>\$3,262,289</u>	<u>\$3,533,511</u>	<u>\$1,013,359</u>

LOSS EXPERIENCE

As developed from applicable amounts included in the Company's annual statements filed with the TDCI, the ratios of losses and loss adjustment expenses ("LAE") incurred to earned premiums for the period subject to this examination were as follows:

<u>Year</u>	<u>Losses & LAE</u> <u>Incurred</u>	<u>Earned Premiums</u>	<u>Loss Ratio</u>
2000	\$728,328	\$1,777,399	41.0%
2001	450,277	1,644,338	27.4%
2002	804,188	2,288,432	35.1%
2003	1,229,744	2,783,267	44.2%
2004	<u>1,449,493</u>	<u>3,470,378</u>	<u>41.8%</u>
Total All Years	<u>\$4,662,030</u>	<u>\$11,963,814</u>	<u>39.0%</u>

REINSURANCE AGREEMENTS

Ceded Reinsurance:

The Company has a network of automobile dealers that the Company utilizes in the delivery of its policies. The Company reinsurers a significant portion of its business through dealer controlled, unauthorized reinsurance companies. In most of these reinsurance arrangements, one hundred percent (100%) of written premium is ceded to the reinsurer. The Company's reinsurance agreements are summarized below.

Plateau Reinsurance Ltd.

The Company ceded its unearned premiums to Plateau Reinsurance Limited, an affiliate, for all business not ceded to producer owned reinsurance companies. Two (2) agreements cover this business:

A one hundred percent (100%) quota share agreement effective August 1, 2001, for the unearned premiums at that date. This agreement includes a ceding commission of up to ten percent (10%) plus any acquisition expenses paid by the Company, an additional ceding commission and/or reimbursement for all board and bureau fees, insolvency fund assessments, surplus lines taxes, surplus lines fees, and premium taxes.

A one hundred percent (100%) quota share agreement effective October 31, 2001, for the unearned premiums at that date. This agreement includes a ceding commission of up to ten percent (10%) plus any acquisition expenses paid by the Company, an additional ceding commission and/or reimbursement for all board and bureau fees, insolvency fund assessments, surplus lines taxes, surplus lines fees, and premium taxes.

The Company received a letter of credit in the amount of three million five hundred thousand dollars (\$3,500,000) and trust accounts in the amount of five hundred sixty seven thousand dollars (\$567,000) in association with these agreements.

These agreements are subject to Tenn. Code Ann. § 56-11-206(a)(2)(C), which requires transactions within a holding company system to be reported to the TDCI when “the reinsurance premium or a change in the insurer’s liabilities equals or exceeds five percent (5%) of the insurer’s surplus.” Furthermore, transactions within a holding company system may not be entered into unless the insurer has notified the commissioner in writing of its intention to enter into such transaction at least thirty (30) days prior thereto, or such shorter period as the commissioner may permit, and the commissioner has not disapproved it within such period.

The agreement effective August 1, 2001, was received by the TDCI on October 29, 2003, and the agreement effective on October 31, 2001, was received by the TDCI on April 28, 2004. Neither of these agreements was reported at least thirty (30) days prior to the effective date of the agreement. It is recommended that the Company completely comply with Tenn. Code Ann. § 56-11-206(a)(2)(C) at all times.

Tennessee Dealers Ltd.

The Company has an agreement with Tennessee Dealers Reinsurance, Ltd., an affiliated, unauthorized reinsurer:

A one hundred percent (100%) quota share agreement effective August 1, 1997, for policies issued through producers specified by the reinsurer. This agreement includes a ceding commission of up to ten percent (10%) plus any acquisition expenses paid by the Company, an additional ceding commission and/or reimbursement for all board and bureau fees, insolvency fund assessments, surplus lines taxes, surplus lines fees, and premium taxes.

The Company has a trust account in the amount of fifty six thousand dollars (\$56,000) in association with this agreement.

At the time that this agreement was entered into by the Company, these parties were not affiliates. These companies became affiliates on January 2, 2002. At no time since that date has the Company been required to report this agreement to the TDCI in accordance with holding company transaction requirements specified by Tenn. Code Ann. § 56-11-206(a)(2)(C), which requires transactions within a holding company system to be reported when “the reinsurance premium or a change in the insurer’s liabilities equals or exceeds five percent (5%) of the insurer’s surplus.” Furthermore, transactions within a holding company system may not be entered into unless the insurer has notified the commissioner in writing of its intention to enter into such transaction at least thirty (30) days prior thereto, or such shorter period as the commissioner may permit, and the commissioner has not disapproved it within such period.

Gary Mathews Service Company, Ltd.

The Company has an agreement with Gary Mathews Service Company, Ltd., an unauthorized reinsurer:

A one hundred percent (100%) quota share agreement effective August 1, 1997, for policies issued through producers specified by the reinsurer. This agreement includes a ceding commission of up to eight percent (8%) plus any acquisition expenses paid by the Company, an additional ceding commission and/or reimbursement for all board and bureau fees, insolvency fund assessments, surplus lines taxes, surplus lines fees, and premium taxes.

The Company has a trust account in the amount of one million one hundred thousand dollars (\$1,100,000) in association with this agreement.

Mathews & Vines Reinsurance, Ltd.

The Company has an agreement with Mathews & Vines Reinsurance, Ltd., an unauthorized reinsurer:

A one hundred percent (100%) quota share agreement effective October 1, 2001, for policies issued through producers specified by the reinsurer. This agreement includes a ceding commission of up to seven and one half percent (7.5%) plus any acquisition expenses paid by the Company, an additional ceding commission and/or reimbursement for all board and bureau fees, insolvency fund assessments, surplus lines taxes, surplus lines fees, and premium taxes.

The Company has a trust account in the amount of one million three hundred thousand dollars (\$1,300,000) in association with this agreement.

Jenkins Reinsurance, Ltd.

The Company has an agreement with Jenkins Reinsurance, Ltd., an unauthorized reinsurer:

A one hundred percent (100%) quota share agreement effective August 1, 1997, for policies issued through producers specified by the reinsurer. This agreement includes a ceding commission of up to eight percent (8%) plus any acquisition expenses paid by the Company, an additional ceding commission and/or reimbursement for all board and bureau fees, insolvency fund assessments, surplus lines taxes, surplus lines fees, and premium taxes.

The Company has a trust account in the amount of nine hundred thirty seven thousand dollars (\$937,000) in association with this agreement.

BRB Insurance, Ltd.

The Company has an agreement with BRB Insurance, Ltd., an unauthorized reinsurer:

A one hundred percent (100%) quota share agreement effective May 1, 1998, for policies issued through producers specified by the reinsurer. This agreement includes a ceding commission of up to eight percent (8%) plus any acquisition expenses paid by the Company, an additional ceding commission and/or reimbursement for all board and bureau fees, insolvency fund assessments, surplus lines taxes, surplus lines fees, and premium taxes.

The Company has a trust account in the amount of two hundred four thousand dollars (\$204,000) in association with this agreement.

United Insurance Company, Ltd.

The Company has an agreement with United Insurance Company, Ltd., an unauthorized reinsurer:

A one hundred percent (100%) quota share agreement effective September 30, 1998, for policies issued through producers specified by the reinsurer. This agreement includes a ceding commission of up to seven and one half percent (7.5%) plus any acquisition expenses paid by the Company, an additional ceding commission and/or reimbursement for all board and bureau fees, insolvency fund assessments, surplus lines taxes, surplus lines fees, and premium taxes.

The Company has a trust account in the amount of one hundred sixty three thousand dollars (\$163,000) in association with this agreement.

Cogdill Reinsurance, Ltd.

The Company has an agreement with Cogdill Reinsurance, Ltd., an unauthorized reinsurer:

A one hundred percent (100%) quota share agreement effective June 1, 2001, for policies issued through producers specified by the reinsurer. This agreement includes a ceding commission of up to seven and one half percent (7.5%) plus any acquisition expenses paid by the Company, an additional ceding commission and/or reimbursement for all board and bureau fees, insolvency fund assessments, surplus lines taxes, surplus lines fees, and premium taxes.

The Company has a trust account in the amount of nine hundred sixty three thousand dollars (\$963,000) in association with this agreement.

Eaton Insurance Company, Ltd.

The Company has an agreement with Eaton Insurance Company, Ltd., an unauthorized reinsurer:

A one hundred percent (100%) quota share agreement effective June 1, 2001, for policies issued through producers specified by the reinsurer. This agreement includes a ceding commission of up to ten percent (10%) plus any acquisition expenses paid by the Company, an additional ceding commission and/or reimbursement for all board and bureau fees, insolvency fund assessments,

surplus lines taxes, surplus lines fees, and premium taxes.

The Company has a trust account in the amount of forty nine thousand dollars (\$49,000) in association with this agreement.

CDH Reinsurance, Ltd.

The Company has an agreement with CDH Reinsurance, Ltd., an unauthorized reinsurer:

A one hundred percent (100%) quota share agreement effective June 1, 2001, for policies issued through producers specified by the reinsurer. This agreement includes a ceding commission of up to ten percent (10%) plus any acquisition expenses paid by the Company, an additional ceding commission and/or reimbursement for all board and bureau fees, insolvency fund assessments, surplus lines taxes, surplus lines fees, and premium taxes.

The Company has a trust account in the amount of forty two thousand dollars (\$42,000) in association with this agreement.

JDF Reinsurance, Ltd.

The Company has an agreement with JDF Reinsurance, Ltd., an unauthorized reinsurer:

A one hundred percent (100%) quota share agreement effective October 1, 2001, for policies issued through producers specified by the reinsurer. This agreement includes a ceding commission of up to seven and one half percent (7.5%) plus any acquisition expenses paid by the Company, an additional ceding commission and/or reimbursement for all board and bureau fees, insolvency fund assessments, surplus lines taxes, surplus lines fees, and premium taxes.

The Company has a trust account in the amount of two hundred eighteen thousand dollars (\$218,000) in association with this agreement.

Dealer Group Reinsurance, Ltd.

The Company has an agreement with Dealer Group Reinsurance, Ltd., an unauthorized reinsurer:

A one hundred percent (100%) quota share agreement effective October 1, 2003, for policies issued through producers specified by the reinsurer. This agreement includes a ceding commission of up to seven and one half percent (7.5%) plus any acquisition expenses paid by the Company, an additional ceding commission and/or reimbursement for all board and bureau fees, insolvency fund assessments, surplus lines taxes, surplus lines fees, and premium taxes.

The Company has a trust account in the amount of four hundred thirty eight thousand dollars (\$438,000) in association with this agreement.

Sylvan Hill Insurance Company, Ltd.

The Company has an agreement with Sylvan Hill Insurance Company, Ltd., an unauthorized reinsurer:

A one hundred percent (100%) quota share agreement effective August 1, 2003, for policies issued through producers specified by the reinsurer. This agreement includes a ceding commission of up to ten percent (10%) plus any acquisition expenses paid by the Company, an additional ceding commission and/or reimbursement for all board and bureau fees, insolvency fund assessments, surplus lines taxes, surplus lines fees, and premium taxes.

The Company has a trust account in the amount of thirty four thousand dollars (\$34,000) in association with this agreement.

New Magnolia Life Reinsurance, Ltd.

The Company has an agreement with New Magnolia Life Reinsurance, Ltd., an unauthorized reinsurer:

A one hundred percent (100%) quota share agreement effective October 1, 2003, for policies issued through producers specified by the reinsurer. This agreement includes a ceding commission of up to ten percent (10%) plus any acquisition expenses paid by the Company, an additional ceding commission and/or reimbursement for all board and bureau fees, insolvency fund assessments, surplus lines taxes, surplus lines fees, and premium taxes.

The Company has a trust account in the amount of one hundred twenty one thousand dollars (\$121,000) in association with this agreement.

Galena Reinsurance Company, Ltd.

The Company has an agreement with Galena Reinsurance Company, Ltd., an unauthorized reinsurer:

A one hundred percent (100%) quota share agreement effective October 1, 2003, for policies issued through producers specified by the reinsurer. This agreement includes a ceding commission of up to eight percent (8%) plus any acquisition expenses paid by the Company, an additional ceding commission and/or reimbursement for all board and bureau fees, insolvency fund assessments, surplus lines taxes, surplus lines fees, and premium taxes.

The Company has a trust account in the amount of three hundred ninety one thousand dollars (\$391,000) in association with this agreement.

Royston Reinsurance, Ltd.

The Company has an agreement with Royston Reinsurance, Ltd., an unauthorized reinsurer:

A one hundred percent (100%) quota share agreement effective August 24, 2004, for policies issued through producers specified by the reinsurer. This agreement includes a ceding commission of up to seven and one half percent (7.5%) plus any acquisition expenses paid by the Company, an additional ceding commission and/or reimbursement for all board and bureau fees, insolvency fund assessments, surplus lines taxes, surplus lines fees, and premium taxes.

The Company has a trust account in the amount of one hundred forty six thousand dollars (\$146,000) in association with this agreement.

Hillendale Reinsurance Company, Ltd.

The Company has an agreement with Hillendale Reinsurance Company, Ltd., an unauthorized reinsurer:

A one hundred percent (100%) quota share agreement effective July 15, 2004, for policies issued through producers specified by the reinsurer. This agreement includes a ceding commission of up to seven and one half percent (7.5%) plus any acquisition expenses paid by the Company, an additional ceding commission and/or reimbursement for all board and bureau fees, insolvency fund assessments, surplus lines taxes, surplus lines fees, and premium taxes.

The Company has a trust account in the amount of three hundred seventy thousand dollars (\$377,000) in association with this agreement.

Copeland Reinsurance, Ltd.

The Company has an agreement with Copeland Reinsurance, Ltd., an unauthorized reinsurer:

A one hundred percent (100%) quota share agreement effective August 24, 2004, for policies issued through producers specified by the reinsurer. This agreement includes a ceding commission of up to seven and one half percent (7.5%) plus any acquisition expenses paid by the Company, an additional ceding commission and/or reimbursement for all board and bureau fees, insolvency fund assessments, surplus lines taxes, surplus lines fees, and premium taxes.

The Company has a trust account in the amount of one hundred fifty two thousand dollars (\$152,000) in association with this agreement.

Trust Agreements:

All unauthorized reinsurers have executed trust agreements with the Company and report amounts held under these agreements to secure the Company's reinsurance recoverables and reserve credits at December 31, 2004.

Tenn. Code Ann. § 56-2-209(a) states that reserve credits may be taken for unauthorized reinsurance in an amount not to exceed the "funds held by or on behalf of the ceding insurer, including funds held in trust for the ceding insurer, under a reinsurance contract with such assuming insurer as security for the payment of obligations thereunder, if such security is held in the United States subject to withdrawal solely by, and under the exclusive control of, the ceding insurer . . .".

With regard to the Company's trust accounts used as security for unauthorized reinsurance, it was noted that several of the trust account balances fell short of the amounts reported in the Company's 2004 Annual Statement.

The following table presents the amounts for unauthorized reinsurance that are not fully covered by trust account balances and, therefore, are not eligible for reserves credits for reinsurance recoverables under Tenn. Code Ann. § 56-2-209. The amounts of reinsurance recoverables not covered by the trust agreements must be established as a liability for unauthorized reinsurance:

Unauthorized Reinsurer	Trust Account balance reported in Annual Statement (in thousands)	Actual amount of Trust Account balance (in thousands)	Amount of Liability for Unauthorized Reinsurance (in thousands)
Tennessee Dealers Reins. Co. Ltd.	\$56	\$52	\$4
BRB Insurance Ltd.	204	199	5
Cogdill Reinsurance Ltd.	963	950	13
CDH Reinsurance Ltd.	42	3	39
JDF Reinsurance Ltd.	218	207	11
Dealer Group Reinsurance Ltd.	438	409	29
Copeland Reinsurance Ltd.	152	150	2
Total			\$103

The Company's attention is directed to Tenn. Code Ann. § 56-1-501(b) which requires that an annual statement "shall be completed and filed in accordance with annual statement instructions established by the commissioner." Tenn. Code Ann. § 56-44-102 requires that this same statement be filed with the NAIC. It is recommended that the Company comply completely with Tenn. Code Ann. § 56-1-501(b) and § 56-44-102.

Unearned Ceding Commission:

Nearly all of the Company's reinsurance agreements cede premiums on a written basis, and therefore, in the event of termination, the Company would be obligated to return any unearned ceding commissions to the reinsurers. However, all of the agreements provide that in the event of termination, the reinsurance continues to apply to all policies in force until their expiry or cancellation in the normal course of business. That is, there is no return of premium or ceding commission at the termination of an agreement because the policies continue in full force. Also, most of the Company's reinsurance agreements provide that ceding commissions be paid based on net premiums; that is, on written premiums less the return premiums (those that are cancelled by policyholders prior to the end of the policy period), and the agreements provide for monthly settlements, including any return premiums and any associated ceding commissions, by offset. Therefore, the Company is deemed to have no ultimate liability for unearned ceding commissions.

NAIC Financial Condition Examiners Handbook SSAP No. 61 states that if the reinsurance agreements contain "a persistency guarantee which provides for return of the excess commission, the ceding entity must record the excess commission as a liability." None of the Company's reinsurance agreements contain such persistency guarantees.

Other Considerations:

All of the Company's active reinsurance agreements were found to contain such language as recommended by the NAIC and as required for reinsurance credit by Tenn. Code Ann. § 56-2-207(a)(2). All agreements also appear to effectuate proper transfer of risk in accordance with SSAP No. 61 and NAIC guidelines.

AGREEMENTS WITH PARENT, SUBSIDIARIES AND AFFILIATES

The Company had two (2) agreements with affiliated companies in effect as of December 31, 2004. The following are summaries of the agreements in effect as of this examination for the Company:

Management Service Agreement with Plateau Group:

Effective July 1, 1997, the Company entered into a Management Service Agreement with its ultimate parent, Plateau Group. According to the terms and provisions of the Agreement, Plateau

Group agrees to provide the Company with certain administrative services for its internal operations and processing its insurance business. Such services include general administration, acquisition of new business, employment and termination of insurance agents, training of agents, controlling activities of agents, establishing field underwriting guidelines, investments and relations with regulatory authorities.

The Company has no employees of its own. All services necessary to its business are provided by the Plateau Group pursuant to the Agreement. The compensation paid by the Company to the Plateau Group is equal to five percent (5%) of direct written premium. Transactions under the Agreement for Services were reviewed for compliance with the Agreement and charges appear to be commensurate with services rendered.

The Company filed this Agreement for approval by the Commissioner as required by Tenn. Code Ann. § 56-11-206 (2)(A). TDCI approved this Agreement on November 19, 1997.

Tax Allocation Agreement with Plateau Group:

Effective March 26, 2001, the Company entered into a Tax Allocation Agreement with their ultimate parent, Plateau Group. The Agreement states the Company has elected through the provisions of the Internal Revenue Code to be included in its parents (Plateau Insurance Company) life-nonlife consolidated tax return.

The Company agrees to pay each year federal income taxes equivalent to the amount it would have paid if it were on a separate return basis without the benefit of exemptions under Internal Revenue Code (IRC) 11(b) and IRC 55(d). However, no taxes shall be payable if the consolidated group reports no tax liability. The Company further agrees to allow the Plateau Group to use and allocate any applicable sur-tax exemptions under IRC 11(b) and alternative minimum tax exemptions under IRC 55(d) without further consent. Transactions under the Tax Allocation Agreement were reviewed for compliance with the Contract with no exceptions.

This agreement has been disclosed by the Company in its Holding Company Registration Statement in each year for the period under review.

LITIGATION AND CONTINGENT LIABILITIES

From the data made available during the progress of this examination, it would appear that the only matters at law in which the Company was involved, during the period under review, were those relating to the settlement of claims.

The Company also apparently had no agreements or pending matters of contingent nature that would materially affect its financial position or operating results at December 31, 2004.

Inquiries were made to the states in which the Company is licensed to determine if any regulatory action had been taken against the Company or its representatives during the period under review. No regulatory actions were taken.

STATUTORY DEPOSITS

In compliance with statutory and other requirements, the Company maintained the following deposit with the named jurisdiction or custodian as of December 31, 2004:

<u>Jurisdiction</u>	<u>Description of Security</u>	<u>Par Value</u>	<u>Book Value</u>	<u>Market Value</u>
Tennessee - Dept. of Insurance	FHLM 3.875%, Due 09-26-08 Cusip # 3128X1-P2-7	<u>\$500,000</u>	<u>\$502,983</u>	<u>\$500,595</u>
Total		<u>\$500,000</u>	<u>\$502,983</u>	<u>\$500,595</u>

The security deposited with the TDCI was held for the benefit of all policyholders, claimants and creditors of the Company. Deposit with said jurisdiction or custodian was verified by direct correspondence with the custodian of such deposit.

ACCOUNTS AND RECORDS

Tenn. Comp R. & Regs. 0780-1-65.07 (3) states that no partner or other person responsible for rendering a report by a certified public accounting firm may act in that capacity for more than seven (7) consecutive years. The Company is in compliance with this regulation as they switched accounting firms in 2000 and now have Crowe Chizek and Company LLC as their public accountants.

During the course of the examination, accounts were verified by various tests and procedures deemed necessary to establish values for assets and liabilities appearing in the Company's financial statements. Test checks, for selected periods, were made of premium receipts, investment income, interest due and accrued, claim payments, and other disbursements. All annual statements for the period under examination were reviewed for completeness and adequacy of disclosure. The Company's risk-based capital filings were reviewed and sample tested for correctness. These test checks and reviews revealed no material discrepancies.

SUBSEQUENT EVENTS

As of December 31, 2004, the Company had one (1) bond held at Salmon Smith Barney and did not have a custodian agreement that complies with Tenn. Comp R. & Regs. 0780-1-46-.04 or guidelines set in the *NAIC Financial Condition Examiners Handbook* for custodian agreements. Due to this non-compliance, the bond and its corresponding accrued interest were non-admitted for this examination. The Company was advised to move the bond to an acceptable custodian at once and it is recommended that in the future the Company hold their securities with a custodian under a proper custodian agreement that complies with Tenn. Comp R. & Regs. 0780-1-46-.04 and the guidelines set in the *NAIC Financial Condition Examiners Handbook* for custodian agreements.

Subsequent to this examination as of date, in May 2005, the Company complied with the TDCI's request to move this security to a proper custodian bank where they have in place a proper custodian agreement that complies with Tenn. Comp R. & Regs. 0780-1-46-.04 and the guidelines set in the *NAIC Financial Condition Examiners Handbook* for custodian agreements.

Financial Statement

There follows a statement of assets, liabilities and a summary of operations as of December 31, 2004, together with a reconciliation of capital and surplus for the period under review, as established by this examination.

	<u>Assets</u>			
	<u>Ledger Assets</u>	<u>Non-Ledger Assets</u>	<u>Non-Admitted Assets</u>	<u>Net-Admitted Assets</u>
Bonds	\$8,385,740		\$1,100,000	\$7,285,740
Cash on hand and on deposit	802,749			802,749
Investment income due and accrued	68,797		1,069	67,728
Uncollected premiums	35,306			35,306
Amounts recoverable from reinsurers	141,589			141,589
Net deferred tax asset	124,777			124,777
Guaranty funds receivable or on deposit	419			419
Totals	<u>\$9,559,377</u>	<u>\$0</u>	<u>\$1,101,069</u>	<u>\$8,458,308</u>

Liabilities, Surplus and Other Funds

Losses		\$432,769
Loss adjustment expenses		64,915
Commissions payable, contingent commissions and other similar charges		160,810
Other expenses		19,081
Taxes, licenses and fees		87,490
Current federal income taxes		24,294
Unearned premiums		3,561,904
Ceded reinsurance premiums payable		75,122
Remittances and items not allocated		(1)
Liability for unauthorized reinsurance		103,000
Aggregate write-ins for liabilities:		
Payable to reinsurers		141,589
Unclaimed property		135
		<hr/>
Total Liabilities		\$4,671,108
Common capital stock	\$1,000,000	
Gross paid in and contributed surplus	2,000,000	
Unassigned funds (surplus)	<u>787,200</u>	
Total Surplus as Regards Policyholders		<hr/> 3,787,200
Totals		<hr/> <hr/> \$8,458,308

Statement of Income

UNDERWRITING INCOME:

Premiums earned		\$3,470,378
Losses incurred	\$1,215,785	
Loss expenses incurred	233,708	
Other underwriting expenses incurred	<u>2,687,610</u>	
Total underwriting deductions		<u>4,137,103</u>
Net Underwriting Gain or (Loss)		(\$666,725)

INVESTMENT INCOME:

Net investment income earned	\$321,320	
Net realized capital gains or (losses)	<u>0</u>	
Net Investment Gain or (Loss)		321,320

OTHER INCOME:

Aggregate write-ins for miscellaneous income	<u>\$1,971</u>	
Total Other Income		<u>1,971</u>
Net income before dividends to policyholders and before federal and foreign income taxes		(\$343,434)
Dividends to policyholders		<u>0</u>
Net income, after dividends to policyholders but before federal and foreign income taxes		(\$343,434)
Federal and foreign income taxes incurred		<u>(15,706)</u>
Net Income		<u><u>(\$327,728)</u></u>

Capital and Surplus Account

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Total Surplus as Regards Policyholders December 31, previous year	\$3,090,812	\$3,484,714	\$3,671,593	\$3,669,056	\$5,274,031
Net income or (loss)	\$393,399	\$96,036	(\$49,927)	\$1,663,899	(\$327,728)
Net unrealized capital gains or (losses)	502	(502)	0	0	0
Change in non-admitted assets	0	0	0	0	(1,101,069)
Change in net deferred income tax	0	27,216	47,390	(58,924)	44,965
Change in liability for reinsurance in unauthorized companies	0	0	0	0	(103,000)
Cumulative effect of changes in accounting principles	0	64,130	0	0	0
Aggregate write-ins for gains and losses in surplus	1	(1)	0	0	1
Change in total surplus as regards policyholders for the year	\$393,902	\$186,879	(\$2,537)	\$1,604,975	(\$1,486,831)
Total Surplus as Regards Policyholders December 31, current year	\$3,484,714	\$3,671,593	\$3,669,056	\$5,274,031	\$3,787,200

ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS RESULTING FROM EXAMINATION

ASSETS

Bonds: \$7,285,740

The amount shown above is one million one hundred thousand dollars (\$1,100,000) less than what was reported by the Company in its 2004 Annual Statement. **REASON:** As of December 31, 2004, the Company had one (1) bond held at Salmon Smith Barney and did not have a custodian agreement that complies with Tenn. Comp R. & Regs. 0780-1-46-.04 or guidelines set in the *NAIC Financial Condition Examiners Handbook* for custodian agreements. The Company valued the bond for one million one hundred thousand dollars (\$1,100,000) in their 2004 Annual Statement. The Company was advised to move the bond to an acceptable custodian at once and it is recommended that in the future the Company hold their securities with a custodian under a proper custodian agreement that complies with Tenn. Comp R. & Regs. 0780-1-46-.04 and the guidelines set in the *NAIC Financial Condition Examiners Handbook* for custodian agreements.

Investment Income Due and Accrued: \$67,728

The amount shown above is one thousand sixty nine dollars (\$1,069) less than what was reported by the Company in its 2004 Annual Statement. **REASON:** The one thousand sixty nine dollars (\$1,069) is the total accrued interest on the bond that was held at Salmon Smith Barney that is being non-admitted for our examination described above. Therefore, it to will be non-admitted.

LIABILITIES, SURPLUS AND OTHER FUNDS

Liability for Unauthorized Reinsurance:

\$103,000

The amount shown above is one hundred and three thousand dollars (\$103,000) more than what was reported by the Company in its 2004 Annual Statement. **REASON:** With regard to the Company's trust accounts used as security for unauthorized reinsurance, it was noted that several of the trust account balances fell short of the amounts reported in the Company's 2004 Annual Statement. These differences in amounts for unauthorized reinsurance that are not fully covered by trust account balances are not eligible for reserves credits for reinsurance recoverables under Tenn. Code Ann. § 56-2-209. The amounts of reinsurance recoverables not covered by the trust agreements must be established as a liability for unauthorized reinsurance:

The Company's attention is directed to Tenn. Code Ann. § 56-1-501(b) which requires that an annual statement "shall be completed and filed in accordance with annual statement instructions established by the commissioner." Tenn. Code Ann. § 56-44-102 requires that this same statement be filed with the NAIC. It is recommended that the Company comply completely with Tenn. Code Ann. § 56-1-501(b) and § 56-44-102.

Total Surplus as Regards Policyholders:

\$3,787,200

Total surplus as regards policyholders as established by this examination is one million two hundred four thousand sixty nine dollars (\$1,204,069) less than what was reported by the Company in its December 31, 2004, Annual Statement. For this examination, we decreased bonds by one million one hundred thousand dollars (\$1,100,000), decreased investment income due and accrued by one thousand sixty nine dollars (\$1,069) and increased liability for unauthorized reinsurance by one hundred three thousand dollars (\$103,000). These amounts are outlined in the subsequent schedule which indicates the various items making up the changes. The changes in the various items indicated are discussed in detail under the appropriate captions elsewhere in this report.

Tenn. Code Ann. §§ 56-2-114 and 115 require an insurer of this Company's type to maintain a minimum capital and surplus of two million dollars (\$2,000,000). Therefore, the Company as of December 31, 2004, for this examination does maintain the required minimum capital and surplus as stated in the Tenn. Code Ann.

ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AS THEY AFFECT SURPLUS

<u>Item</u>	<u>Reclassification</u>	<u>Increase</u>	<u>Decrease</u>	<u>Surplus</u>
Total Surplus as Regards Policyholders per Company				\$4,991,269
Bonds			\$1,100,000	
Investment income due and accrued			1,069	
Liability for unauthorized reinsurance			103,000	
Totals	<u>\$0</u>	<u>\$0</u>	<u>\$1,204,069</u>	
Total Decrease per Examination				<u>(1,204,069)</u>
Total Surplus as Regards Policyholders per Examination				<u>\$3,787,200</u>

COMMENTS AND RECOMMENDATIONS

The following list presents a summary of comments and recommendations noted in this report:

Comments:

None.

Recommendations:

A. Reinsurance Agreements and Liability for Unauthorized Reinsurance – Page 13 and 30

In the review of the Company's reinsurance agreements there were two (2) examination recommendations noted. The two (2) recommendations are described below:

1. Prior Approval of Reinsurance Agreements with Affiliates

The Company entered into two (2) reinsurance agreements with its affiliate, Plateau Reinsurance Limited, in 2001. The first agreement had an effective date of August 1, 2001, and the second had an effective date of October 31, 2001.

These agreements are subject to Tenn. Code Ann. § 56-11-206(a)(2)(C), which requires transactions within a holding company system to be reported to the TDCI when "the reinsurance premium or a change in the insurer's liabilities equals or exceeds five percent (5%) of the insurer's surplus." Furthermore, transactions within a holding company system may not be entered into unless the insurer has notified the commissioner in writing of its intention to enter into such transaction at least thirty (30) days prior thereto, or such shorter period as the commissioner may permit, and the commissioner has not disapproved it within such period.

The agreement effective August 1, 2001, was received by the TDCI on October 29, 2003, and the agreement effective on October 31, 2001, was received by the TDCI on April 28, 2004. Neither of these agreements was reported at least thirty (30) days prior to the effective date of the agreement. It is recommended that the Company completely comply with Tenn. Code Ann. § 56-11-206(a)(2)(C) at all times.

2. Trust Agreements

With regard to the Company's trust accounts used as security for unauthorized reinsurance, it was noted that several of the trust account balances fell short of the amounts reported in the Company's 2004 Annual Statement. These differences in amounts for unauthorized reinsurance that are not fully covered by trust account balances are not eligible for reserves credits for reinsurance recoverables under Tenn. Code Ann. § 56-2-209. The amounts of reinsurance recoverables not covered by the trust agreements, which was a total of one hundred three thousand dollars (\$103,000), must be established as a liability for unauthorized reinsurance:

The Company's attention is directed to Tenn. Code Ann. § 56-1-501(b) which requires that an annual statement "shall be completed and filed in accordance with annual statement instructions established by the commissioner." Tenn. Code Ann. § 56-44-102 requires that this same statement be filed with the NAIC. It is recommended that the Company comply completely with Tenn. Code Ann. § 56-1-501(b) and § 56-44-102.

B. Bonds and Subsequent Events – Page 24 and 29

As of December 31, 2004, the Company had one (1) bond held at Salmon Smith Barney and did not have a custodian agreement that complies with Tenn. Comp R. & Regs. 0780-1-46-.04 or guidelines set in the *NAIC Financial Condition Examiners Handbook* for custodian agreements. The Company valued the bond for one million one hundred thousand dollars (\$1,100,000) in their 2004 Annual Statement. Due to this non-compliance, this bond and its corresponding accrued interest is non-admitted for this examination. The Company was advised to move the bond to an acceptable custodian at once and it is recommended that in the future the Company hold their securities with a custodian under a proper custodian agreement that complies with Tenn. Comp R. & Regs. § 0780-1-46-.04 and the guidelines set in the *NAIC Financial Condition Examiners Handbook* for custodian agreements.

In May 2005, the Company complied with the TDCI's request to move this security to a proper custodian bank where they have in place a proper custodian agreement that complies with Tennessee Regulations § 0780-1-46-.04 and the guidelines set in the *NAIC Financial Condition Examiners Handbook* for custodian agreements.

CONCLUSION

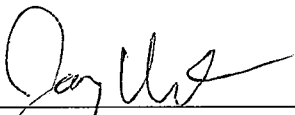
The customary insurance examination practices and procedures, as promulgated by the NAIC have been followed in connection with the verification and valuation of assets and the determination of liabilities of Plateau Casualty Insurance Company located in Crossville, Tennessee.

In such manner, it was found that as of December 31, 2004, the Company had admitted assets of eight million four hundred fifty eight thousand three hundred eight dollars (\$8,458,308) and liabilities, exclusive of surplus, of four million six hundred seventy one thousand one hundred eight dollars (\$4,671,108). Thus, there existed for the additional protection of the policyholders, the amount of three million seven hundred eighty seven thousand two hundred dollars (\$3,787,200) in the form of common capital stock, gross paid in and contributed surplus and unassigned funds.

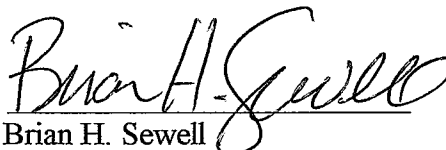
The courteous cooperation of the officers and employees of the Company, extended during the course of the examination, is hereby acknowledged.

In addition to the undersigned, R. Michael Lamb, FCAS, MAAA, of the contracting actuarial firm, Michael Lamb LLC, Salem, Oregon, and Norman Chandler, CPA, CPCU, ARe, AIAF, ARC, ACP, of the contracting reinsurance specialist firm, TaylorChandler, LLC, Montgomery, Alabama, participated in the work of this examination.

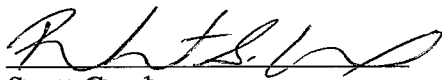
Respectfully submitted,



A. Jay Uselton, CFE
Examiner-in-Charge
State of Tennessee
Southeastern Zone, NAIC



Brian H. Sewell
Insurance Examiner, III
State of Tennessee
Southeastern Zone, NAIC



Scott Creel
Insurance Examiner, II
State of Tennessee
Southeastern Zone, NAIC

EXAMINATION AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of Plateau Casualty Insurance Company located in Crossville, Tennessee dated July 26, 2005, and made as of December 31, 2004, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says he is familiar with such instrument and the contents thereof, and the facts therein set forth are true to the best of his knowledge, information and belief.



A. Jay Uselton, CFE
Examiner-in-Charge
State of Tennessee
Southeastern Zone, NAIC

County Davidson

State Tennessee

Subscribed and sworn to before me
this 26th day of
July, 2005

Caulene J Bennett
(NOTARY)

My Commission Expires

Sept 20, 2005

PLATEAU GROUP, INC.
Tennessee Corporation
FED ID# 62-1103416
100%

Plateau Reinsurance, LTD
Turks & Caicos Domiciled
Reinsurance Company
Fed ID# 62-1622710
NAIC# AA-51218

Preferred Reinsurance, LTD
Turks & Caicos Domiciled
Reinsurance Company
Fed ID# 62-1589881
NAIC# AA-51210

Plateau Insurance Company
Tennessee Domiciled
Insurance Company
Fed ID# 62-1216897
NAIC# 97152
100%

Plateau Service
Company
Tennessee Corporation
Fed ID# 62-1702145

Athens Insurance
Agency
Tennessee Corporation
Fed ID# 62-0614821

Tennessee Dealers
Reinsurance Company, LTD
Turks & Caicos Domiciled
Reinsurance Company
Fed ID# 62-1726109
NAIC# AA-54134

Plateau Reinsurance
Company
Nevada Domiciled
Reinsurance Company
Fed ID# 20-0494334
NAIC# applied for

Plateau Casualty Insurance Company
Tennessee Domiciled Insurance
Company
Fed ID# 62-1624986
NAIC# 10817

100% Voting Common Stock
Tennessee Life Insurance Company
Arizona Domiciled Reinsurance
Company
Fed ID# 93-0929904 NAIC# 85502